Yarmouk University

Faculty of Economics & Administration Science

Banking & Finance Department

" The Financial Performance of Initial Public Offerings: The Case of GCC Markets during 2003-2010"

" الأداء المالي لعملية الإصدارات الأولية في أسواق دول مجلس التعاون الخليجي خلال الفترة 2003 - 2010 "

By:
Mohammad Adnan Mohammad Al Zarie

Supervisor:
Prof. Mona Al-Mwalla

This Thesis is Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Banking and Finance Sciences, Yarmouk University.
July, 2014

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الفترة 2003 - 2010

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B. Sc in Business and Financial Economies and a minor in Banking & Finance Sciences, Yarmouk University 2012.

This Thesis is submitted in Partial Fulfillment of the Requirements for the Degree of Master of Banking and Finance Sciences, Yarmouk University, Irbid, Jordan.

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Dedication

My sincerest thanks go to my family and my parents. My dad for his moral support, my Mom for all that she had done and gives to me, to my brother Omar and sisters Ala'a, Amani, Suzan and Sameha. I also would like to dedicate this work to the most special Prof. Dr. Mona Almwalla, for all help, guidance, support and confidence.

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Mohammad Adnan Al zarie

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Abstract

The Financial Performance of Initial Public Offerings: The Case of GCC Markets during 2003-2010, master thesis in Yarmouk University, 2014.

Prepared:

Mohammad Adnan Al-Zarie

Supervisors:
Prof: Mona Al-Mwalla

The main objective of this study is to investigate the stock market performance in the long run, looking for any statically Abnormal Return after Initial Public Offerings (IPOs), using a monthly closing prices of 58 GCC firms are listed during the period from 2003 to 2010. Cumulative Abnormal Return CAR equation and Event study methodology have been used to test the stock market performance.

The study results show that there are a statistically significant abnormal returns after IPO and there's underpricing for stock in GCC led to increase in stock price after IPOs.

Key Words: Initial Public Offerings, Long-Run Performance, Gulf Cooperation Council, Abnormal Return

Chapter **O**ne

Introduction

1.1 Introduction:

During the last years, markets of (GCC) have seen expansion and development which has led to an increase in the number of firms listed in their markets and of Initial Public Offerings (IPOs). Markets and economies of the Arabian Gulf are considered the largest and fastest growing markets in the Arab World region, as they rely mainly on oil and natural gas. Thus the gulf's economy has greatly expanded and Gross Domestic Product (GDP) has accordingly increased, as a result of increased global demand for oil and natural gas (Saif, 2009).

Previous studies (Mohammad and Al-Ajloni, 2007; Alanazi and liu, 2013) have identified a number of issues related to IPOs; the long-run performance of new IPOs has attracted researchers' attention in the recent years. In particular, some researchers contend that the long-run firms underperform relative to the market and to non-issuing firms in the years which immediately follow their initial public offering. The existence and persistence over time of this difference has led these researchers to conclude that investors in IPO markets are overly optimistic.

The main reason behind the IPOs issuing is the firm's desire to raise equity capital for the firm and create a public market in which founders and other shareholders can convert some of their wealth into cash at future time (Ritter, 1991).

The IPO is considered one of the main financial decisions that the firm has to take. The decision of private firms to go public has an effect on and change the whole structure of firm. Firm goes public to create a liquidity market for their share, capital raising and increase in market share, which may be achieved through a number of other means like using venture capital, bank loans, or private replacement.

This study, therefore, investigates the financial performance of (IPOs), made by firms listed in the (GCC) stock exchange markets between 2005 and 2010. We choose this time period because it saw a significant increase and a growth in the number of corporations that turned public using IPOs.

This increasing activity in the primary market was due to some factors; First, the market booming and desire of young and small companies raise capital to enter the capital marketplace and obtain the advantages of going public; second, the regulation, determinants and listing requirement started to be easier for the companies; third, there are many money holders who want to invest their wealth. However, liquidity creation can only be achieved through going public.

This study will try to find out how GCC IPOs companies perform in the long run relative to certain benchmarks.

1.2 Study objectives:

The main objective of this study is to investigate the long run performance of IPOs during the period 2005-2010, looking for any statistically significant abnormal returns around IPOs for a sample of GCC financial and industrial firms, and to find out if returns are positive or negative, using Cumulative Abnormal Return (CAR).

1.3 Importance of the study:

This study aims to generate any knowledge about IPOs in GCC corporations and their future financial performance in GCC markets. The knowledge about (IPO) can help investor and corporate to make investment decision in these markets, and help Stock Exchange Regulation, management of corporation to design the IPOs in a matter not to affect future performance. Thus, the aim of this study is to fill a gap in the literature, as the result will be very useful to investors, individual or investment professionals, students and academics.

1.4 Problem of the study:

This study attempts to provide answers to the following questions:

1. How does GCC market react to IPOs?

2. Is there a significant relationship between IPO performance and the GCC market performance?

3. How does the Saudi Arabian market react to IPOs?

4. Is there a significant relationship between IPO performance and Saudi Arabia market performance?

5. How does Qatar market react to IPOs?

6. Is there a significant relationship between IPO performance and Qatar reaction to IPOs?

1.5 Hypotheses of the study:

To achieve the study objective the following hypotheses have been tested:

Main Hypothesis:

There is no significant abnormal return in GCC market after IPOs.

Sub Hypothesis:

H1: There is no significant abnormal return in Saudi Arabian market after IPOs.

H2: There is no significant abnormal return in Qatar market after IPOs.

1.6 Structure of the study

The structure of thesis is as follows: Chapter one provides an introduction to the study. Chapter two provide a theoretical background

of IPOs and GCC market and define the IPOs concept. Chapter three presents a survey of previous studies that examine the performance of IPOs in GCC and other countries. The data used in the study, the methodology adopted to evaluate the performance of the IPOs and benchmarks are presented in chapter four. Chapter five presents the results and the last chapter includes the discussion and conclusion.

Chapter Two

Theoretical Background

2.1 Introduction:

This chapter illustrates the theoretical background of the IPO process, explains the meaning of this term, the advantages and disadvantages of going public, its process, explain some theories and hypotheses, and finally talks about the Gulf States economies.

2-2 General Definition of Initial Public Offering:

One of the most significant events in a firm's life, one of particular interest to individual or institutional investors, is the move from private to public firms through IPOs.

An IPO is an important point in a firm's life because it allows the raising of capital in a public market to fund future growth. In addition, IPOs provide a site for initial shareholders to sell and buy their ownership stake and share the rewards of the firm's growth (Thomadakis *et al*, 2009)

An IPO is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time, to maximize capital and distribute risk by letting other investors participate. This happens to a small or younger company which wants to be large and is looking for expansion (Ritter, 1991).

Many researchers have defined the meaning of IPOs. Al-Barrak (2005) describes an IPO as "a first-time offering of shares by specific firms to the public". Alanazia *et al.* (2009) define IPO as one of the most important unique decisions that the firm faces in its life. It is the decision that is going to change the whole structure of the firm, and in many cases it ends up with the ownership power being transferred and taken away from the company's original owner.

Most companies begin out by raising equity capital from a small numbers of investors, without having an existing liquid market, if these investors wish to sell their stock. If a company prospers and needs additional equity capital, at some point the firm generally finds it desirable to "go public" by selling stock to a large number of diversified investors. Once the stock is publicly traded, this enhances liquidity, and enhances the company to raise capital on more suitable terms than if it had to compensate investors for the lack of liquidity associated with a privately-held company. In the next section, the researcher will talk about the features and details related to IPO.

2-3 Advantages and Disadvantages of Going Public

2-3-1 Advantages of Going Public

There are a lot of advantages of the IPO; the most important features of these are (Sherman, 2012):

1 - Increasing the capital and access to finance.

2 – Increasing liquidity.

3 - Increasing market share and access to the largest number of investors.

4 - Enhancing the company's reputation as the process of offering shares for public subscription increase people's knowledge of the company and its activities, which also increases the people's desire to handle and buy their products, and increases the confidence of suppliers in granting credit.

5- Build prestige for the company in market.

6- Maximizing stockholder wealth.

2-3-2 Disadvantages of IPO

Despite the importance of the IPO, it has many flaws and disadvantages, including (Sherman, 2012):

1 - Issuance cost.

2 - Increase in numbers of laws concerning the process of disclosure of data to investors, public and competitors, which could lead to non-compliance with such laws, therefore, be exposed to legal accountability and penalties.

3 - Company's exposure to acquisition by other rival companies and control through the purchase of shares from them.

4 – Reducing earnings per share.

5- Shareholder pressure to pay dividends and collect profit in short run.

6 – Reducing original ownership percentage of the company after public offering.

7 – Increase in number of shareholders, thus increasing the number of those eligible to vote in the selection of the members of the Board of Directors.

2-4 The IPO Process:

In many countries, it can be said that practical steps of IPOs are often very similar and are usually regulated by the Securities Exchange Commission (SEC) in these countries. The issuance process involves the following steps (Gitman and Zutter, 2014).

1 - The firm must obtain the approval of its current shareholder.

2 - The firm must find the investment bank, which is going to buy the stocks from the company and sell them to the public at a specified price by a margin of profit (underwriting), and in some cases some companies sell shares to the public directly, without an intermediary.

3 - The firm files a registration statement with the SEC; a portion of the registration is called a prospectus.

4 - Prepared and recorded data from the company then submitted to the SEC, which is doing its share to ensure correct information, accurate status of the company, and the extent of compliance with the rules of the IPO process.

5 -Preparing the prospectus required to be presented to potential investors. This prospectus contains information about financial records, plans for the future, and the price for the floated stock. This prospectus is mainly used by potential investors looking for more detailed information on a firm prior to buying shares and has a legal warning preceding the IPO as it waits a securities commission approval.

6- Promoting the offer, both within and outside the country, by a staff responsible for marketing the company through visits, newspapers and radio advertisements and the distribution of Red Herring, in order to deliver the largest amount of information about the company to the public and investors.

7 - The public purchase from the investment bank or the company itself and fill out forms required to buy these stocks.

2-5 Why the GCC Market?

The study used a sample chosen from six GCC countries because it is considered the largest and most active markets in the Arab world. It has developed rapidly during the last quarter of the past century through an increase number of firms in all sectors. The GCC considered one of the richest regions in the world. The motive behind choosing to study the GCC is driven by recent IPOs that occurred in the past ten years, as the number

of listed firms has doubled in just few years. The new regulations applied by the regulatory body in these countries (the Capital Market Authority) have created a unique opportunity to study IPO and firms' performance (Alanazi and Lui, 2013).

IPOs Theoryies:

In this section, researcher will talk about theories and hypotheses of IPO.

2-6 IPO Performance Theory

Ritter (1998) surveys the market for IPOs and analyzes three empirical patterns that have been found in literature. The three patterns are (1) short run under pricing, (2) hot issue markets, and (3) long run underperformance. He also proposes three hypotheses to clarify the phenomena of the long-run underperformance of IPOs.

2-6-1 The Divergence of Opinion Hypothesis

It argues that investors who are most optimistic about an IPO will be the buyers. If there is a great deal of uncertainty about the value of an IPO, the valuations of optimistic investors will be much higher than those

of pessimistic investors. When time goes on and more information becomes available, the divergence of opinion between optimistic and pessimistic investors will be limited, and consequently, the market price will drop (Houge, 2011).

2-6-2 The Impresario Hypothesis

It illustrate that the market for IPOs is subject to trends and that IPOs are underpriced by investment bankers to create the appearance of excess demand. This hypothesis predicts that companies with the highest initial return should have the lowest subsequent returns. There is some evidence of this in the long run, but in the first six months, the impetus effect seems dominant (Ritter, 1998).

2-6-3 The Window of Opportunity Hypothesis.

If there are periods when investors are optimistic about the growth potential of companies going public, the large cycles in volume may represent a response by firms attempting to " time " their IPOs to take advantage of this swing in investors attitude. Due to normal business cycle activity, one would expect to see some variation through time in the volume of IPOs. The window of opportunity hypothesis predicts that firms

going public in high volume period are more likely to be overvalued than other IPOs (Ritter, 1998).

2-7 The Efficient Market Hypothesis (EMH).

The Efficient Market Hypothesis is an important concept, and it has become increasingly widely accepted since interest in it was reborn in the late 1950's and early 1960's under the rubric of the 'theory of random walks' in the finance literature and 'Rational expectations theory' in the mainstream economics literature(Jensen, 1978). It talks about the necessity of access of information equally to investors, and the lack of variation in this knowledge. This theory is divided into three parts; (1) the weak form, the information subset of interest is just a past price or return (Historical data); (2) the semi-strong form, which states that information is available to the public at any time. (This includes the past history of prices so the weak form is just a restricted version of this); (3)the strong form, which refers to availability of all private and public information to all investors at any time. Also must be linked to the market efficiency regarding the pricing process is what is referred to **the winner's curse hypothesis** (Jensen, 1978)**.** This will be described in the next section:

2-8 The Winner's Curse Hypothesis

Rock (1986) develops a model that relies on information asymmetry between investors, several of whom are informed and others are not. The outside informed investors possess better knowledge about the future prospects of the firm than uninformed investors. Consequently, they will bid for more shares of the more successful firms, which will leave the uninformed investors with a disproportionate amount of the less successful issues. In addition, since the allocation is not on a prorate basis, the bias against uninformed investors can be even larger if investment bankers favor informed investors. Because market participants are rational, uninformed investors require a higher average return to compensate them for their allocation disadvantage —hence the underpricing in the IPO market.

However, according to Rock(1986) if there are issues in which the uninformed traders have a more prior knowledge than the informed traders, they will not participate and do not face an allocation disadvantage, and underpricing is not required to induce them to participate in the market. In issues with an a priori knowledge of information homogeneity, the "lemons problem" does not exist and there is no need for underpricing. In most instances, however, there is no such a priori knowledge, and the trading population differs in its information. Then underpricing is necessary to

attract the disadvantaged uninformed investors, who will not consider the new issue unless its price is low enough to compensate them for the winner's curse problem. In summary, the researcher found support for the notion that there is a link between the heterogeneity of investors' information and IPO underpricing. For Master Limited Partnerships (MLP) IPOs, in which institutional (informed) investors scarcely participate, find no underpricing (Michaely and Shaw, 2004).

2-9 Signaling Theory

In the search for a possible relation or connection between capital structure and firm value, Modigliani and Miller (1950), in their first prospection, indicate no such relationship exists between firm value and capital structure. This kind of argument involves a certain assumption referred to most of the time. Managers have better information than outside investors. This is called asymmetric information, and it has an important effect on the optimal capital structure (Brigham and Ehrhardt, 2013). Therefore, little information available to public enables the managers to earn abnormal return. This study argues that information could be obtained by insiders and enabled them to attain abnormal return around IPOs.

This study investigates if investing in IPOs provides a significant abnormal return. This might have its implications on the market efficiency and the symmetric information hypothesis discussed earlier.

2-10 The GCC economy

The GCC countries' economies are classified within the economies of developing countries, although they are part of the oil economies, characterized by a high degree of energy financing and higher average per capita income. As oil is the most important sources of income for the GCC countries, it is axiomatic that the macroeconomic performance depends on what happens to the oil sector regarding changes in prices. These countries have realized the danger that lies in the strategy of relying on one commodity, such as oil, so they have tried to try to diversify the sources of income and thus diversify exports in order to mitigate the impact of external factors and the fluctuation of the global market.

Gulf States seek to maintain stable economies, exchange rates of their currencies, and reduce inflation and achieve an adequate return for investments to bring capital instead of continuing with efforts to protect the investment environment in the region.

The size of the economies in the Arabian Gulf doubled during the period 2002-2012 largely due to the rise in demand for oil and its higher prices, which led to an increase in oil revenues in the budgets of the GCC which stood at 25.3% in 2008 (GulfBase, 2014).

The emergence of financial markets in the GCC differs in each country. The following Table (2.1) shows the beginning date of each:

Table (2.1) Market Establishment and Market Capitalization at end of 2013.

COUNTRY	Market	Year of Establishment	Market capitalization at End of 2013. $ billion
UAE	Dubai Financial Market (DFM)	2000	70.7
UAE	Abu Dhabi Security Market (ASDM)	2000	109.3
Qatar	Doha Securities Market (DSM)	1995*	152.5
Oman	Muscat Securities Market (MSM)	1988	36.7
Bahrain	Bahrain Stock Exchange (BSE)	1987	18.5
Saudi Arabia	Tadawul	1984	467.43
Kuwait	Kuwait Stock Exchange (KSE)	1977	110.3
* : activities started at 1997			

(Sources: developed by researcher)

The following sections show development of the stock market of each country.

2-10-1 Saudi Arabia

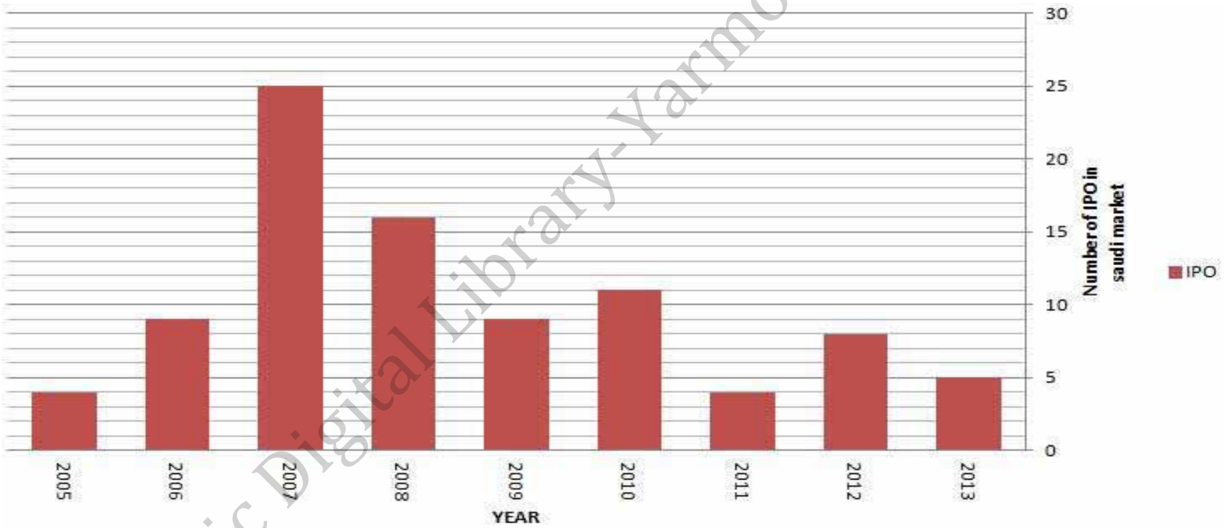
The Saudi market was established in 1984. Although the Saudi market is one of the largest markets of the Arabian Gulf and the Arab World in general, yet it is classified as an emerging Market. Saudi Stock Market is classified as an emerging market that belongs to the Middle East and North Africa region (MENA region) (Al-Barrak, 2005).

The following figures show an increase in the number of IPOs 2005-2007 in the Saudi market; then it declines in the period of the global

financial crisis 2008. The number of IPOs firms in Saudi Market decreases from 25 to 16 firms in 2008 and 9 in 2009.

In the period 2010-2013, the number of IPOs has seen fluctuations between increases and decrease, and it was 5 in 2013.

Figure 2.1: Saudi Arabia IPOs



(Sources: developed by researcher)

The Saudi market is one of the largest markets of the Arabian Gulf and the Arab world in general, so its economy is based mainly on oil, and that is because Saudi Arabian owns 25% of the world's oil reserves and is considered one of the leading oil-exporting countries.

2-10-2 The United Arab Emirates.

The Federation includes seven emirates, Dubai, Sharjah, Abu Dhabi, Ajman, Ras Al Khaimah, Al Fujairah and Umm al-Quwain. Dubai is the biggest and wealthiest economy in the United Arab Emirates, followed by Abu Dhabi.

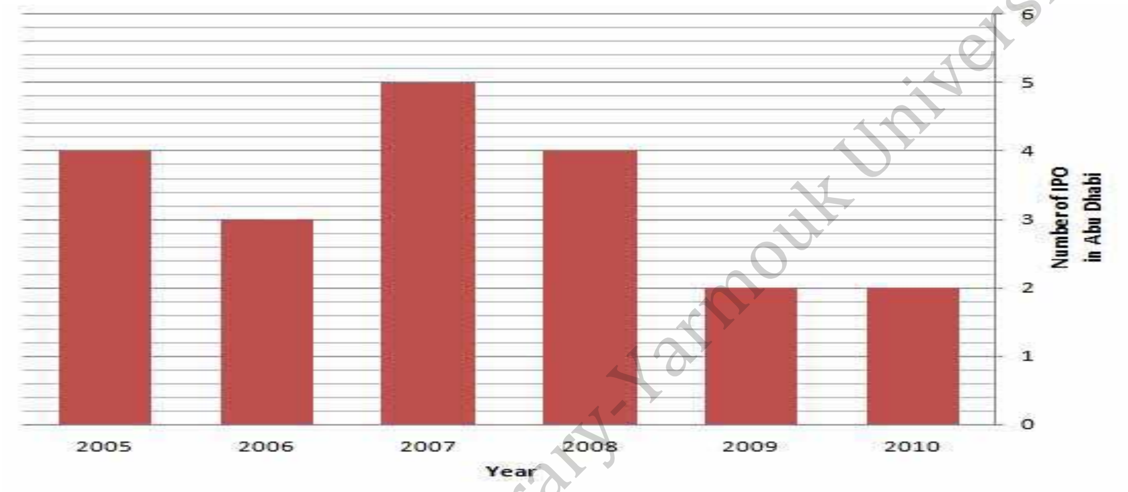
Abu Dhabi Securities Exchange (ADX) was established in 2000. ADX seeks to be the market of choice in the region and its mission is to lead the development of the capital market in the UAE and the region through an organized marketplace in a legal environment that ensures integrity, transparency and disclosure. ADX was established on 15 Nov - 2000, by Law Number (3) of 2000, the provisions of which vest the Market with a legal body of independent status, independent finance and management, and that gives ADX the necessary supervisory and executive powers to exercise its functions.

The UAE economy is the second largest economy in the region after Saudi Arabia, so it recorded the highest economic growth rates in the Arab region as a result of the growth of its exports of oil and natural gas during the period 2004-2008. (Abu Dhabi Securities Exchange)

On the other hand, Dubai Financial Market (DFM) was established in 2000, as a public institution having its own independent corporate. And DFM is operating as a secondary market for trading of securities issued by public joint-stock companies.

The following figures show increase and decrease in number of IPOs in UAE, from 2005 to 2010, will an obvious decrease since 2008.

Figure 2.2 Abu Dhabi IPOs



Sources: developed by researcher

2-10-3 Qatar

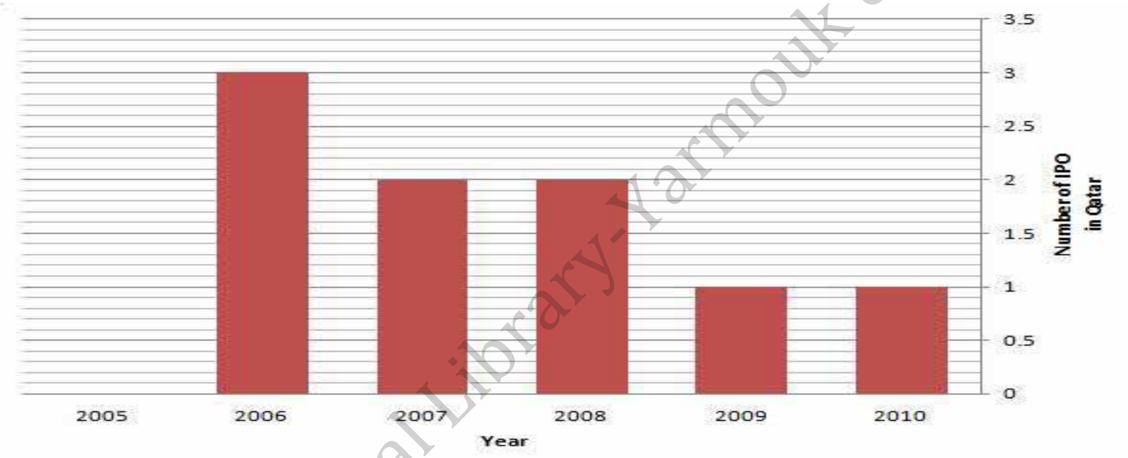
The Doha Securities Market was established in 1995 and began its business activities mid-1997. It has expanded significantly since the introduction of electronic, rather than manual, trading. Demonstrative of this fact is that it has grown from 17 listed companies on conception to 43 listed companies in 2008 with a market capitalization of QR 279.03 million, and it increased to QR 555.6 billion in 2013 ($ 152.5 billion) (Doha Securities Market, 2014).

Despite its small size, the State of Qatar in recent years is considered one of the fastest growing states and high-income countries. And is one of the richest countries in the Arab World. The country's GDP

has been rising rapidly in recent years due to a high demand for Liquefied Natural Gas (LNG). Qatar has the third largest gas field exceeding 250 trillion cubic feet of LNG. (Sharar, 2010)

The following figures show the number of IPO during the period 2005-2010, decrease from 3 in 2006 to 1 in 2010.

Figures 2.3 Qatar IPOs



(Sources: developed by researcher)

2-10-4 Bahrain

Bahrain Bourse (BHB) was established in 1987 as a shareholding company according to Law No. 60 for the year 2010 to replace Bahrain Stock Exchange (BSE). As of 2n April 2012, market capitalization stood at US$16.7 billion (Central Bank of Bahrain, 2014).

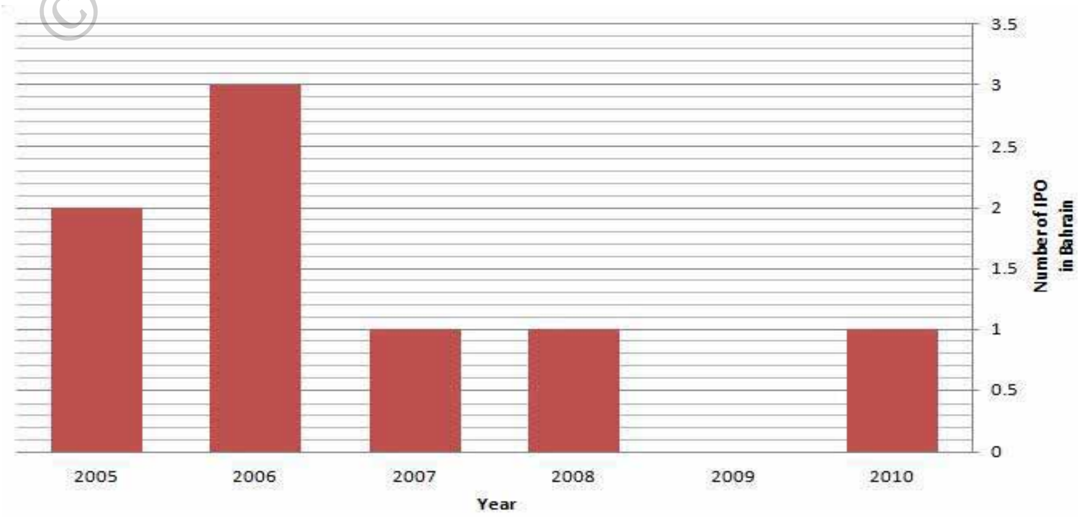
Bahrain has the lowest oil reserves in the GCC; Bahrain is one of the most economically diverse in GCC countries and does not depend mainly on oil.

The origins of capital sector in the Kingdom of Bahrain go back to the year 1921, when the opened a branch of the Bank of the East, now

known as "Standard Chartered Bank", in Bahrain. In 1957 was established the first public company in Bahrain. The founding of such companies continued after to reach its peak at the beginning of the 1980s, a period that witnessed a very active trading in the shares of public companies in the market, informally known as "jewel market". A result of the recommendation reached by a joint study carried out by the Government of the Kingdom of Bahrain and the International Finance Corporation (IFC), the Bahrain Stock Exchange was established in 1987; began to market its work officially in June 1989. The existence of the market has contributed in promoting environment investment in capital sector in Bahrain and led to the increase in the number and quality of financial instruments and investment recorded in the market. (Central Bank of Bahrain, 2014)

The following figures show a decrease in number of IPOs in Bahrain stock exchange during the period 2006 to 2010.

Figure 2.4 IPOs in Bahrain



(Sources: developed by researcher)

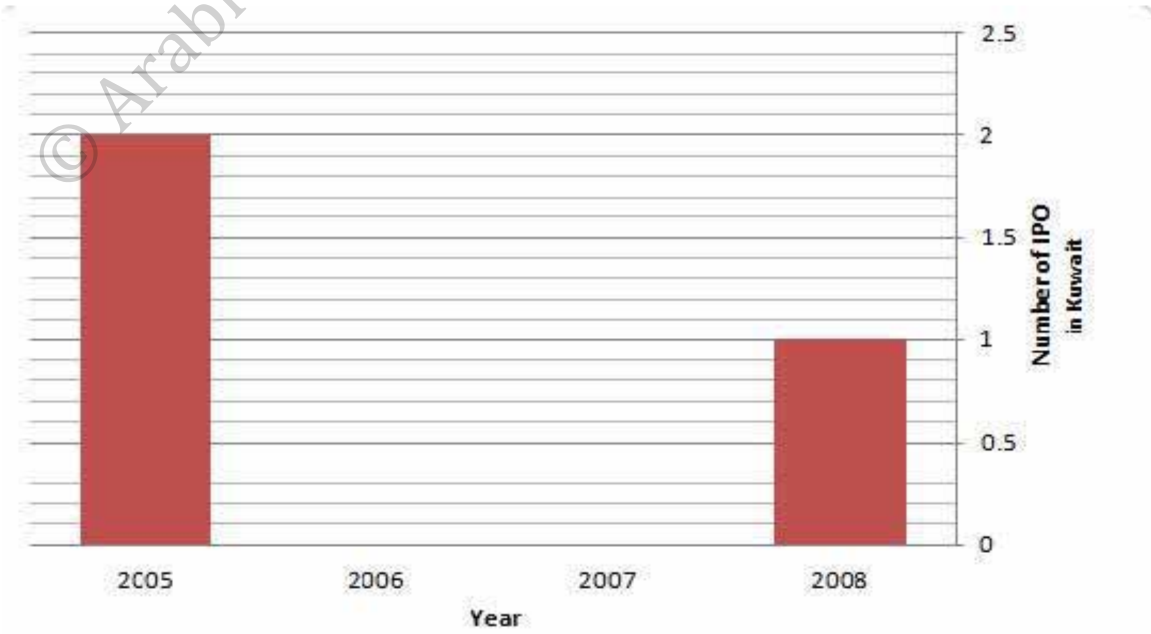
2-10-5 Kuwait

Kuwait Stock Exchange was established in 1977. Kuwait's economy is based on oil; it has oil reserves second only to Saudi Arabia, and oil makes up 95% of the country's exports.

The first Kuwaiti shareholding company (National Bank of Kuwait) was established in 1952, followed thereafter by Kuwait National Cinema Company in 1954. In the early 1960s, with the discovery of oil and a significant increase in the number of companies, some of the laws governing the work of companies where issued.

The following figures show the number of IPOs in Kuwait, with a low number of IPOs during the last period.

Figures: 2.5 Kuwait IPOs



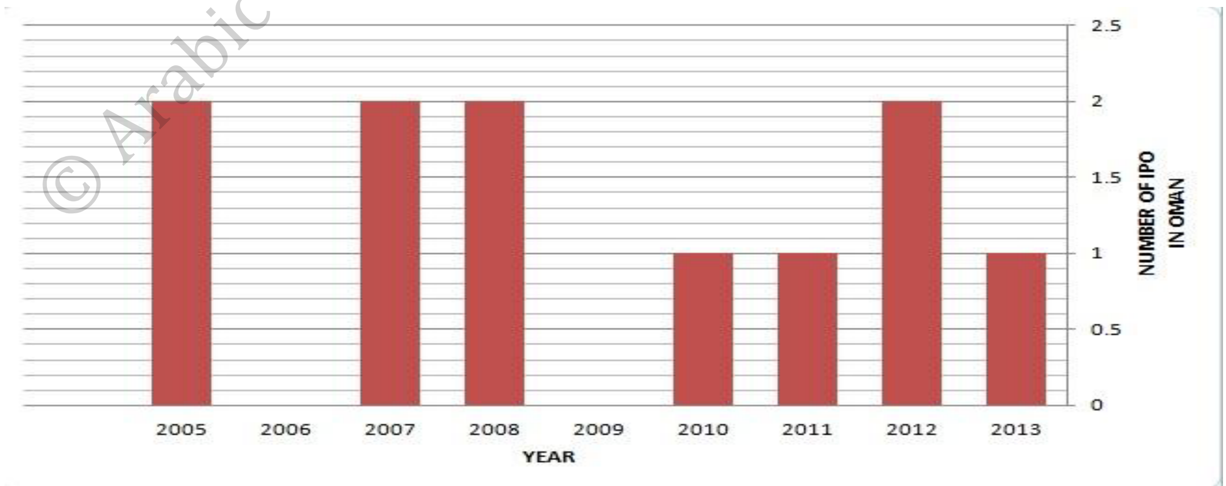
(Sources: developed by researcher)

2-10-6 Oman

Muscat Securities Market (MSM) was established in 1988. Oman's economy is a middle-income economy, which based mainly on oil and natural gas, so that constitute 64% of its exports. Financial market activity in the Sultanate of Oman started in 1973 with the establishment of the first National Bank (NBO); then at the beginning of the 1970s the number of these banks increased and the emergence of Public Shareholding Companies 1989 led to the establishment of Muscat Securities Market to organize, companies and supervise buying, selling and pricing.

The following figures show a relative stability in the number of IPOs during the period 2005-2013.

Figure: 2.6 Oman IPOs



Sources: developed by researcher

In the Appendices, the reader can find tables including a name of firms and IPOs issuance for each country.

Chapter Three

Literature Review

3-1 Introduction

A number of studies have been conducted on the financial performance of companies after the initial public offering, and most of these studies show a decline of financial performance. Most of research has been conducted in developed countries, and few have been conducted in developing countries.

3.2 Previous Studies

3-2-1 Studies in Developed Countries.

Jain and Kini (1994) investigated the operating performance of IPO firms from the pre to the post-issue period. They found evidence that IPO firms exhibit inferior post-IPO operating performance relative to the year prior to going public. This occurs despite the high growth in sales and capital expenditures over the period studied. They measured the change in operating performance as the median change of the operating return on assets (ROA) and operating cash flows deflated by assets from the period before the IPO to the period after the IPO. In another study**, Jain and Kini (1999)** develop a logic model using information available at or prior to the IPO to predict the post issue operating performance. The results show that

there are several significant differences in the post-issue operating performance of surviving firms compared to non-surviving ones.

Celis and Maturana (1998) investigated short- and long-run IPOs performance in Chile. Using a sample of 36 IPOs between October 1991 and May 1997, they separate the IPOs into two groups, according to the development stage in Chile; (1) early IPOs (1991-1994) with a sample of 23 issues; (2) mature market IPOs (1995-1997) with a sample of 13 issues. They uesd the cumulative abnormal return (CAR) method to measure the long run performance, and used both a market index and sector indices as benchmarks. The result shows a statistically significant short run performance using the global index.

Khurshed *et al.* (1999), state that the long run performance of IPOs depends on pre-IPO factors, such as firm size, firm age, and underwrites reputation. They used a sample of 240 IPOs of non- investment trust companies floated on the UK during the period January 1991 through June 1995. The result shows that a positive relationship between size of firm and its long run performance, a negative relationship between the profitability and the long run performance, and a negative relationship between initial public offering returns and long run performance. The higher the return on the first trading day the worse is the performance in the long run.

Espenlaub *et al.* (2000) investigate the long run performance of 588 IPOs issued by non financial United Kingdom companies during the period from 1985 to 1992. They used a CAR as a measure. Five benchmarks were used: (1) The standard capital asset pricing model (CAPM); (2) Return on relevant size portfolio; (3) Fama and French value weighted three factor model; (4) a value weighted multi index model; and (5) Returns across securities and times (RATS) method. The results confirm the existence of statistically and economically significant long-term IPO underperformance in their sample irrespective of the benchmark employed. The degree of underperformance depends markedly on the benchmark.

Janice and How (2000) investigated the initial and long-run performance of Australian mining IPOs, using data for 130 firm issues from 1979 to 1990 in Australian Stock Exchange's (ASX). They used the CAR to measure the long run performance.

The results show that there is an average underpricing of 107.18%, which is significantly higher than that documented for industrial firms, and show that delay in listing is significantly related to the long-run performance, with some evidence of a curvilinear relationship between underpricing and the one-year and two-year share returns.

Kiymaz and Halil (2000) investigated the initial and after market return for the Turkish Initial Public Offerings (IPOs) to provide an emerging market case of international evidence on performance of IPOs. The sample consists of 163 firms listed and traded on the Istanbul Stock Exchange during the period 1990-1996. The results show that the Turkish IPOs are underpriced on initial trading day at an average of 13.1%. The initial underpricing is 11.7% for industrial firms, 15% for financial firms and 17.6% for others. In terms of sub-sectors, the highest return is obtained in Tourism/Transportation group, while the lowest return is observed in Machinery/Equipment group. With the exception of banking group, all of the sub-sectors experienced statistically significant initial underpricing.

Alvarez and Gonzalez (2001) investigated two conditions: (1) initial underpricing and (2) long-run underperformance. The aim of their study is to study all Spanish IPOs during the period 1987-1997; using a sample of 56 firms to provide additional evidence on the long-run performance of IPOs. They used a Buy and Hold Return (BHR) to measure long – run performance, Calendar -time portfolio and the Fama and French three factors model. The result of the study shows the existence of long – run underperformance which depended on the methodology used. Neither the characteristics of the IPO size of the issue, the underwriters reputation, nor those of the year prior to going public size, return on asset, have a

statistically significant influence on the stock return of the firm three or five year after going public.

Houge *et al.* (2001) investigate the relationship between investor uncertainty, divergence of opinion, and the performance of IPOs. Using a sample of 2,025 IPOs during the 1993-1996 period listed in USA stock exchange, they document the long-run predictive power of the opening, spread, time of first trade, and flipping ratio for up to three years after the offering. They found find that each hour of opening delay signals three-year excess returns of -13.0 percent, every ten percent increase in the flipping ratio corresponds with excess returns of -6.2 percent, and each one percent of opening spread relates to -1.2 percent lower returns

Brounen and Eichholtz (2002) investigate the underperformance pricing of long run performance of IPO, using unique a sample of 54 British, French and Swedish companies, which became publicly listed during the period 1984-1999. They found that the European share IPOs in their sample outperformed the benchmark on the first day of trading. With an average of 2.55%, and showed a modest underperformance after a year.

Gompers and Lerner (2003) investigate the performance of IPOs up to five years after listing. They examined 3661 IPOs between 1935-

1972. In order to measure long run performance, they used buy and hold return (BHR) and cumulative abnormal return (CAR). The result shows that the underperformance is found when using buy and hold abnormal return, but is not statistically significant and disappeared when using CAR.

Gounopoulos (2003) investigate the initial performance of the Greek IPOs, using a sample of 225 firms listed on the Athens Stock Exchange for the period January 1990 to December of 2001. The result shows that Greek IPOs are on average underpriced by 63.92% while 30 IPOs (13.3%) are overpriced. The initial underpricing is 67.14% for industrial firms, 54.55% for finance firms and 56.19% for other firms. In terms of sub-sectors, results indicate highest return is obtained in Information Technology group while the lowest return is observed in Telecommunication Group.

Bai & Zhang (2004) examined the long run performance of IPO in Chinese Stock Market, using data for 341 IPOs issued on the Shenzhen and shanghai stock exchange between January 1998 and December 2000. They used Fama-French Three-factor Capital Asset Pricing Model. The result shows that no long-run underperformance with IPOs in the Chinese stock market. The long-run performance of IPOs is related with their first day returns. IPOs with low first day returns have higher long-term investment

value, compared to IPOs with high first day returns. IPOs do not show high volatility after issuance, and IPOs issued in the year 2000 have high returns and high volatility over the following year, which is believed to have been caused by over-speculation.

Chi and Padgett (2005) investigate the short-run and long-run performance of Chinese privatization initial public offerings (PIPOs), using data for 340 and 409 new issues on the Shanghai and Shenzhen Stock Exchanges respectively, from 1 January 1996 through 31 December 1997. Using the market-adjusted abnormal return (MAAR) and the market-adjusted buy and hold return (MABHR), they found that government ownership, the offering size and the feature of belonging to a high-tech industry are the main determinants of the long-run performance. In addition, firms that perform better in the long-run tend to make more Seasoned Equity Offerings (SEOs), and the underpricing of IPOs is negatively related to their long-run performance.

Drobetz *et al.* (2005) study the underpricing and long-run performance of all Swiss IPOs from 1983-2000, which totaled 17 firms listed on the Swiss Exchange new market. They report some evidence for underperformance when they use a broad market index as the benchmark. The performance tends to be significant only after 4 years of secondary

market trading. They explain that the basic result is similar for all performance measure, applied perspective. The results confirm the notion in Brav *et al* (2000) that many of the long run stock returns anomalies found in the finance literature are merely manifestations of more systematic return patterns in the broader set of traded companies.

Bildik and Yilmaz (2006) investigate the long run performance of IPOs in Istanbul Stock Exchange (ISE). They studied sample of 234 firms which went public and listed on the ISE between 1990 and 2000, and using Buy and Hold return. Results of this study differ from previous studies in many ways: size of underpricing is significantly lower, while underperformance is higher. Their strong evidence supports the existence of the underpricing by positive initial excess returns (5.94%) and long-term underperformance up to three-year holding period (-84.5%) in the ISE. Underperformance starts much earlier than in other markets, and has even been known to begin at the end of the first month following the IPO because of myopic behavior of investors, who mostly ask for short-term returns in a very volatile and inflationary environment.

Results show that the underperformance of IPOs disappears for IPOs made in a cold market, and those happen through the sale of large shareholders. Allocation of shares in an IPO and size also impact after-

market performance of shares. The more and broader allocation shares, the smaller both the long-run underperformance and the underpricing.

Thomadakis *et al* (2009) examine the long run performance of 254 IPOs listed in the Greek stock exchange during the period 1994 - 2002, using buy and hold abnormal return (BHAR), Cumulative abnormal returns (CAR), and a measurement of returns in calendar time. They found a statistically significant overperformance in several of the benchmarks employed. Cross-sectional regressions of long run performance disclose several significant factors. The study suggests that even if Greek IPOs overperform the market for a longer period, eventually underperformance emerges, in line with much international evidence. The result shows that the persistence of overperformance over a significant interval is due to excessive supply of issues during the "hot" IPO period.

3-2-2 Studies in Developing Countries.

Al-Hassan *et al* (2007) investigated the short and long run performance of IPOs for 47 firms going public in the period (2001-2006) in GCC, using cumulative abnormal return. Results show that GCC IPOs yielded economically and statistically significant initial abnormal returns in line with the underpricing phenomenon of IPOs, which has been

documented in the literature. Initial abnormal returns averaged 290 percent, which are above those documented for other industrial and emerging markets. The performance of IPOs in aftermarket trading was mixed: positive average abnormal returns (between 275 and 280 percent) were documented if initial returns are included, while aftermarket performance turns negative (ranging from -23 percent to -50 percent) vis-à-vis the benchmark portfolio when initial returns are excluded. Thus, a strategy of investing one dollar in IPOs at the end of the first trading day and holding it for one year would have left an investor with only 77 to 50 percent of the return of each dollar invested in GCC stock exchange general indices.

Mohammad and Ajlouni (2007) investigate the long-run performance of 24 Jordanian IPOs that are listed on the Amman Stock Exchange ASE during the period 1990-2005. They used three measurements, which were the Cumulative Abnormal Return (CAR), Buy-and-Hold Returns (BHR) and Wealth Relative (WR). The result shows that when, using CAR measurement, the Jordanian IPOs are significantly underperforming the benchmark, and when performance is measured by Buy and Hold Return the IPOs companies are underperforming, but at a higher level of significance. WR analysis produces similar results to those of BHR. When the sample is segmented by industry, it is observed that long-run performance of IPOs may vary between industries. Results show

that IPOs service companies are performing better than industrial ones in the long run.

Ahmad-Zaluki at el. (2007) investigate the performance of 454 IPOs in the Malaysian Market, during the period 1990-2000. The study finds significant overperformance when event time CARs and buy-hold-Return are calculated using both market benchmarks and the equal-weighting scheme. The study result suggests that investors who measure their investment in IPO companies using the event-time approach will conclude that they earn positive return in the long run, but if they employ the calendar- time approach they conclude that they do not gain any abnormal return.

Pang (2008) study the long run performance of 166 IPOs listed on China's Shanghai Stock Exchange during the period 2000-2002, using CAR, BHR and WR. Results show that the average market-adjusted cumulative return and buy-and-hold return over the three years after listing are -32.02% and -20.88%, which are both significantly negative.The results show that the aftermarket performance is positive after listing (6 months) but thereafter returns decline. Buying A-share IPOs immediately after listing and holding the investment for three years results in negative returns and wealth relatives less than one.

Suherman (2009) investigate the long run share price performance of IPOs in Indonesia. Using a sample of 101 firms listed in Jakarta stock exchange during 1999-2005. The study concludes that the long run performance depends on the method used. Insignificant underperformance is found for equal-weighted cumulative abnormal returns (EWCARs) and value-weighted cumulative abnormal returns (VWCARs). However, underperformance is found for equal-weighted buy-and-hold abnormal returns (EWBHARs). Significant outperformance is found for value-weighted buy-and-hold abnormal returns (VWBHARs). The result indicates that initial returns, age of the firm, and post-IPO institutional ownership are long-run performance-related.

Alanazi *et al* (2011) investigate the effect of IPOs on financial performance post-IPO compared to the pre-IPO period as measured by the Return on Asset (ROA) and Return on Sales (ROS), using a sample of 16 firms listed during the period 2003-2008 in Saudi stock exchange market "Tadawul". However to avoid data incompatibility, IPOs covered under the mergers, acquisition activities and privatization policy were excluded. Result shows that the Saudi firms' performance decline after going public, when measured by the ROA and ROS. The median average for the ROA after the IPO is found to be 30 per cent lower than the average three years

before. The age of firm in Saudi Arabia had a significant positive impact on the performance, while the size of the firm did not.

Alanazi and liu (2013) investigate the financial performance of 52 IPOs made in the GCC region between 2003 and 2010, using a profitability ratio measurement, Return on Asset (ROA) and Return on Sales (ROS). The result indicates that IPO performance decline after going public, and that the performance decline is associated with the firm transition from private into public ownership, due to increasing agency cost. Furthermore, the relationship between change in performance of IPOs and ownership structure is examined. The result shows that a negative relationship between the performance and ownership of firms exists.

Bakara and Uzakib (2013) investigate the underpricing of IPOs for Shariah (Islamic law)-compliant Companies and the effect of determinant factors on the degree of IPO underpricing for such companies. They used data of firms that went public for first time during the period 1968-1992 in Malaysian Stock Exchange (MSE). The result shows that the degree of IPO underpricing for shariah-compliant companies is 28.82 percent. Using a multiple linear regression analysis, found that the time of oversubscription has a significant effect on the degree of IPO underpricing for shariah-compliant companies.

Zarafat and Vejzagic (2014) investigated long-term returns of IPOs listed on the Bursa Malaysia (BM), using data of 166 firms listed and traded on the (BM) during the period 2004-2007, and regression model. Results show that the average market adjusted return for the six-month, one-year, two-year, and three-year after listing are -5.2%, -10.8%, -21.4%, and -32.8%. They are not statistically significant, and the three-year return is influenced by first-day return, book value to market value ratio, and gross proceeds.

3.3 What Distinguishes this Study?

There is a scarcity of studies in GCC countries on the performance of IPOs, Al hassan et al.(2007) study applies the same methodology of (CAR), however the current study used different sampling and apply different period. Alanazi and liu (2013) study used different approach to calculate performance after IPOs.

Chapter **F**our

Data & **M**ethodology

4-1 Introduction

This chapter presents the data and the methodology used in measuring the performance of initial public offerings IPOs in GCC market, defines the hypotheses, presents the population, sample and data.

4-2 Sample and Data Collection

4-2-1 Sample

The data set tested includes GCC firms that went public from 2005 to 2010 and were listed in the stock exchanges as of 2010. The sample of this study consists mostly of IPOs and includes 58 firms from all sectors except the oil and petrochemical sector.

In this study the researcher used the stock closing prices for the IPOs firms for the 35 months after the issuance regardless of whether the trading were stopped or not. Also, market returns were obtained from Gulfbase, Tadawul and Argaam database. Returns of IPOs firms were compared to the market return in these months to find if there is a return which is greater than the market return (abnormal return) or not.

4-2-2 Data Collection

Information and data used in this study were collected form the following sources: (1) Primary Sources: All data of monthly closing price

and general indices were collected from Gulfbase and Tadawul website (Company Guide); (2) Secondary Data: like IPOs reference were collected from journal articles, books and website.

To test the hypotheses of the study, the IPO had to satisfy the following criteria in order to be included in our sample:

1- Company must be listed in Security Exchange in the period (2003-2010).

2- Company must exist and be traded in Security Exchange in the period (2003-2010).

3-If it appears that the end of the month is a holiday in some country; the closing price of the last trading day in the same month is uded. The following table shows numbers of IPOs in each country:

Table (4, 1) Numbers of IPOs in GCC Countries

Country	Saudi Arabia	Abu Dhabi	Dubai	Qatar	Oman	Bahrain	Kuwait	Total
number of IPOs	19	8	5	10	5	8	3	58

(Sources: developed by researcher)

Appendix 8 shows the distribution of the sample by year, both in terms of the number of IPOs and by industry.

4-3 Event-Study Methodology

Event study typically standardizes securities prices reactions by measuring the timing of security price reactions relative to the date of the event, and it is one of the most used tools in financial research; it is interested in measuring abnormal return around. So, it will be used in this study to measure the cumulative abnormal return after IPOs.

Using financial market data, an event study measures the impact of a specific event on the value of a firm. The utility of such a study comes from the fact that, given rationality in the marketplace, the effects of an event will be reflected immediately in security prices. Thus, a measure of the event's economic impact can be constructed using security prices observed over a relatively short time period. Event studies have a long history. (Mackinlay, 1997).

4-4 Performance Measure

The performance of companies after the IPO is calculated by using the stock price for a period of 36 months after the IPO. In this study the General Market Index of each country is used as a benchmark, because the study includes companies from various GCC countries and each has a

private economy that differs from the others, the researcher used a different General Index in each country for the measurement process.

For the United Arab Emirates, the study separated Dubai from the rest of the economy of their Emirates because it has special features different from the rest of the United Arab Emirates, and measured the performance of companies in Dubai based on the General index, which differs from the General index in the other Emirates.

Performance of IPOs is measured by Return on Assets (RO), Return on Sales (ROS), Cumulative Abnormal Return (CAR), Buy - and - Hold Return (BHR) and Wealth Return (WR).

Ahmad-Zaluki *et al*. (2007) pointed out that the most common approach used to measure the performance of IPO return is called Event Time Approach. Using this approach, the performance is examined during a window of time. In this approach, three different measures are applied; (CAR), (BHR) and (WR).

4-5 Methodology:

Cumulative Abnormal Return (CAR)

Monthly rate of return

Monthly rate of return for the even month is calculated as follows:

$r_{it} = (P_{it} – P_{it-1}) / P_{it-1}$ ………. (4, 1)

Where

rit: the raw rate of return for company (i) in the month (t) following listing. Pit and Pit-1 are the prices of stock at the end of month and previous month, respectively.

The benchmark-adjusted return

The adjusted return for issue is defined as the difference between raw return and the corresponding market return for the same time period used for raw return calculation:

$AR = r_{it} – r_{mt}$ ………. …………………… (4, 2)

Where

AR: Abnormal Return.

r_{mt} is the rate of return on the benchmark at the same period t .

rit : is the rate of return for the company (i) in the month (t) following listing.

The Average Benchmark – Adjusted Return

The average benchmark adjusted return on a portfolio of n company for event month t is the equally weighted average of the benchmark adjusted returns, and is calculated as follows:

$$AR_t = \frac{1}{N} \sum_{i=1}^{N} ar_{im,t} \ldots\ldots (4.3)$$

Where

ARt is the equally-weighted and value-weighted arithmetic mean of the benchmark-adjusted returns. The CAR from month (i) to month (t) is calculated by summation of adjusted average rate of return over the time window:

$$CAR_t = \sum_{t=1}^{T} AR_t \ldots\ldots (4, 4)$$

Where

CARt : Cumulative Abnormal Return from month (1) to month (T).

Then, to test if there is a significant AR we found the t-statistic using the following equation:

$$AR_{Mean} = T\ AR / n$$

To found Standard Error:

$$SE = SD / (n^{.5})$$

To found T-statistic:

$$T\text{-statistic} = AR_t \text{ mean} / SE_t$$

If t-statistic > AR …. There is a significant abnormal return and overperformance, underpricing.

4-6 Testing Periods:

The testing period is from May 2005 to November 2013, which represent the period from the first month of the company listing until the last month of the available data.

4-7 Limitations of Data Collection:

The researcher encountered some limitation related to the following:

1 - Non-disclosure of data, and the difficulty of obtaining them only through databases in the Arabian Gulf, except for Saudi Arabia where one way have access to corporate data through the site of the Saudi Financial Market (Tadawul).

2 - Lack of data on the general index for the Gulf States for long periods, particularly before 2005.

Chapter Five
Empirical Results

5-1 Introduction

This chapter presents the result of the analysis of the performance of GCC IPOs for the time window following the listing day. The results are presented in CAR approach (CAR).

5-2 Measuring Long-Run Performance using Cumulative Abnormal Return (CAR)

In order to apply the methodology reported in chapter 4, the monthly return for each IPO is calculated for 36 months after the listing month. According to equation (4.1) in chapter 4, section (1), the rate of return is calculated as the rate of difference between closing price of month (t) and the closing price of month (t-1).

Thus, not all IPOs appear in the listing immediately after their reported IPO data. The first observation is considered the first closing price.

For the General Index benchmark, the monthly return of the General Index has been calculated in the same way, as the rate of difference between closing price of index for month (t) and the closing price of index for month (t-1) is calculated.

Then, we calculated the abnormal return (AR) by subtracting the General Index return from the market adjusted returns, as in equation (4, 2).

5.3 Descriptive Statistics

Appendix (5.9) presents the descriptive statistics of the ARs after IPOs. The mean ARs are positive after the issuance in month 1, 2, 3, 4, 6, 9, 10, 11, 12, 16, 17, 18, 19, 21, 22, 23, 24, 26, 29, 34 and 35. However, they show negative means in month 5, 7, 8, 13, 14, 15, 20, 25, 27, 28, 30, 31, 32, and 33 after the issuance.

The positive AR ranged from 2.0368 in month 2 to 0.1144 month 21 after the issuance. The negative AR ranged from -2.2413 in months 8 to - 0.0832 in month 33. The following table shows the result of analysis:

Table (5.1) Abnormal Return and Cumulative Abnormal Return of GCC.

Month	AR	CAR	t-stat	Month	AR	CAR	t-stat
M1	0.8543	0.8543	0.5709	M19	1.9081	8.7162	1.58804
M2	**2.0368**	**2.8911**	**2.1284***	**M20**	**-0.8690**	**7.8432**	**-0.723***
M3	**0.6448**	**3.5359**	**0.8385***	**M21**	**0.1144**	**7.9617**	**0.1681 ***
M4	**0.3910**	**3.9269**	**0.4853***	**M22**	**0.2715**	**8.2332**	**0.3103 ***
M5	-0.2372	3.6897	-0.3269	M23	0.7633	8.9966	0.55999
M6	**0.3713**	**4.0610**	**0.5024***	**M24**	**0.4342**	**9.4307**	**0.5322***
M7	-0.1844	3.8766	-0.2666	M25	-1.0182	8.4126	-1.2588
M8	**-2.2413**	**1.6352**	**-2.219 ***	**M26**	**0.2114**	**8.6240**	**0.2298 ***
M9	0.9915	2.6269	0.62848	M27	-1.9587	6.6653	-3.2514
M10	0.8962	3.5229	0.83458	M28	-0.4523	6.2130	-0.6307
M11	1.6140	5.1369	0.49936	M29	1.3800	7.5930	1.07547
M12	1.3409	6.4778	0.74206	M30	-1.0701	6.5229	-1.2832
M13	-0.3617	6.1161	-0.4177	M31	-0.7157	5.8072	-0.9821
M14	-1.2848	4.8313	-1.6766	M32	-0.8064	5.0008	-1.1254

M15	-0.1876	4.6437	-0.2870	M33	-0.0832	4.9176	-0.1069
M16	**0.8904**	**5.5341**	**1.1355 ***	**M34**	**0.1786**	**5.0962**	**0.1910***
M17	**0.8518**	**6.3859**	**0.8870***	**M35**	**0.9229**	**6.0191**	**1.3680***
M18	**0.4221**	**6.8081**	**0.5056 ***	* significant at 5%			

(Sources: developed by the researcher)

Table (5, 1) reports the ARs, CARs and t-statics for 35 months after the listing date (listing month) for the IPOs occurring between 2005 to 2010. The table reports monthly abnormal return and cumulative abnormal returns, beginning from the first day of listing. The equally weighted AR in month 35 is 0.9229; thus, an equal investment in each of these IPOs would have resulted in a gain of approximately 9/10 the value of the IPOs over a three-year period, and the CAR stay positive for all months after listing.

The results show a significant AR in months 2, 3, 4, 8, 16, 17, 18, 20, 21, 22, 24, 26, 34 and 35. The best performance appears in month number 35. which indicates that there is a long-run overperformance and stock are underpriced for IPOs.

Results of Table (5.1) also show that GCC IPOs perform considerably Similarly to the Australian mining sample in How(2000) study as Australian IPOs have equally weighted CAR of 107.18% over their event window, and similarly to the results of Alanazi *et al*. (2013) study which indicates the presence of underpricing that varies from one country to the next. GCC IPOs, underpriced by 234.3 %, differ from those

of Alanzai *et al* (2011), which indicate that the Saudi firm performance declines after going public when measured by ROA and ROS. It's different from Mohammad and Ajlouni (2007) study about Jordanian firms, conducted during period 1990-2006, where the results show that the AR is significantly negative in month 4, 6, 13, 17 - 19, 22-24 , 30, 34 and 35 at a 5% level of significance or less, and CARs are significantly underperforming the benchmark.

Figure (5.1) GCC Abnormal Return



(Sources: developed by researcher)

Figures (5,1) shows the movement of the abnormal return during the 35 months after the IPO; it shows an increase in month 2, then, a high decrease occure in month 8; after one year, in month 11 and 12 abnormal return increases and it increases again in 24 and 36. with some decreases during this period. Following these results, the main hypothesis which

states that "There are significant abnormal returns in GCC market after IPOs" is rejected.

To see if IPO performance differs between countries in the GCC, the next section provides the analysis for the Saudi and Qatari markets.

Saudi IPOs

The Saudi Market is chosen for study because it is considered one of the biggest Gulf markets and because its IPO data represent a high percentntage of the sample size. The next table shows the results of data analysis of the Saudi market :

Table (5.2) Abnormal Return and and Cumulative Abnormal Return of Saudi IPOs.

Month	AR	CAR	t-stat	Month	AR	CAR	t-stat
M1	-0.0964	-0.0964	-0.1769	**M19**	**0.736678**	**0.098022**	**1.2155***
M2	**0.4892**	**0.39282**	**1.0193***	**M20**	**0.28861**	**0.38664**	**0.5138***
M3	**0.25007**	**0.64289**	**0.5307***	M21	-0.00654	0.380096	-0.0193
M4	**0.78527**	**1.42817**	**1.5813***	**M22**	**0.24008**	**0.62018**	**0.4596***
M5	-0.0036	1.42452	-0.0070	M23	-0.16202	0.458157	-0.3176
M6	-0.1759	1.24860	-0.3737	**M24**	**0.39045**	**0.84861**	**0.6412***
M7	-0.1680	1.08056	-0.4548	M25	-0.57957	0.269043	-2.0695
M8	-0.7426	0.33795	-1.1851	**M26**	-0.53255	-0.2635	-1.9312
M9	-0.1545	0.18344	-0.2908	M27	-0.61376	-0.87727	-2.0536
M10	**0.26020**	**0.44364**	**0.3732***	M28	-0.12097	-0.99824	-0.3190
M11	-0.1034	0.34023	-0.1657	**M29**	**0.48831**	**-0.50992**	**1.7706***
M12	-0.1786	0.1616	-0.4033	**M30**	**0.43449**	**-0.07543**	**0.9299***
M13	-0.1464	0.01519	-0.4385	**M31**	**0.26650**	**0.19107**	**0.5255***
M14	-0.4585	-0.4433	-1.1109	**M32**	**0.27817**	**0.469247**	**0.7178***

M15	-0.3611	-0.8045	-1.1231	M33	-0.09097	0.378274	-0.2298
M16	-0.0128	-0.8173	-0.0290	M34	-0.18564	0.192632	-0.7134
M17	**0.31842**	**-0.4989**	**0.6885***	**M35**	**0.48128**	**0.67392**	**1.1351***
M18	-0.1397	-0.6386	-0.4351	* significant at 5%			

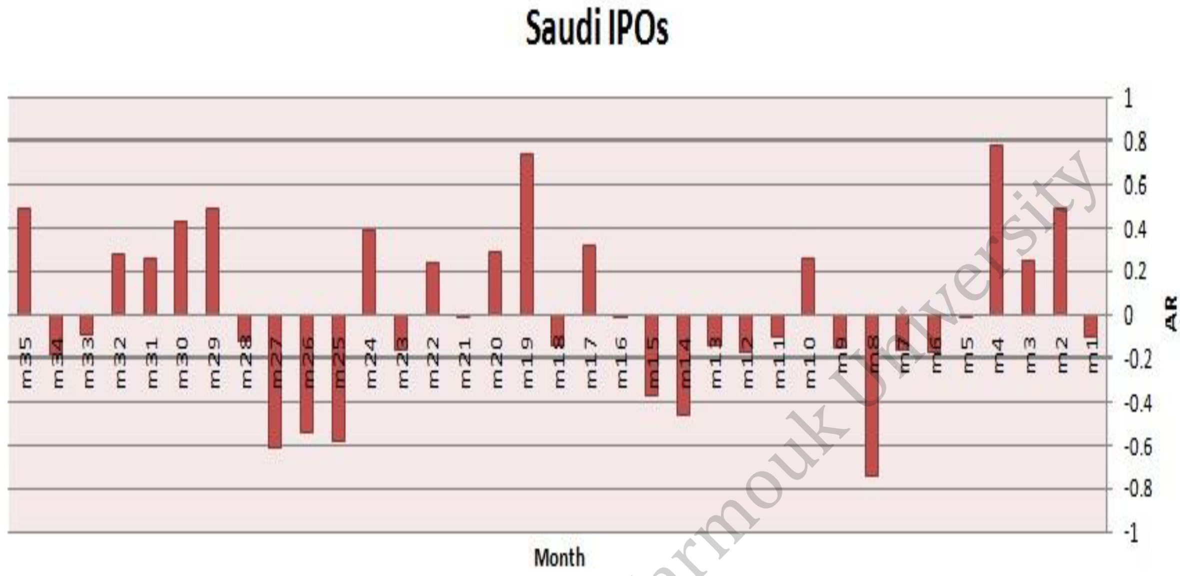
(Sources : developed by reasearcher)

Appendix (5.10) presents the descriptive statistics of the ARs after IPOs. The mean ARs are positive after the issuance in month 2, 3, 4, 6, 9, 10, 11, 12, 16, 17, 19, 20, 22, 24, 29, 30, 31, 32 and 35. However, they show negative means in month 1, 5, 7, 8, 13, 14, 15, 18, 21, 23, 25, 26, 27, 28, 33 and 34 after the issuance .

The positive AR ranged from 0.24008 month 21 to 0.785272 in month 4 after the issuance. The negative AR ranged from – 0.74261454 in month 8 to -0.003642749 in month 5.

Result of table (5.2) show that Saudi Arabia IPOs perform considered similar to our previous result of GCC market, which indicate there is a long run overperformance and stock underpricing, and a significant AR in month 2, 3, 4, 10, 17, 19, 20, 22, 24, 29, 30, 31, 32 and 35. The best performance appears in month number 4.

Figures (5.2) Saudi Abnormal Return



(Sources : devloped by researcher)

Figure (5.2) shows the movement of the AR during 35 months after IPO; it shows an increase in months 2, 3 and 4 then, a high decrease occurs in month 8. It also shows an increase after months 24 and 35. Following to these results, the sub hypothesis which states that "There are significant abnormal returns in Saudi Arabia market after IPOs" is rejected.

Qatari IPOs

The Qatari market is considered one of the most developed and expanding Gulf markets in recent years and it ranks second in terms of the size of the financial market after Saudi Arabia.

The next table shows the results of data analysis of the Qatar market:

Table (5.3) Abnormal Return and Cumulative Abnormal Return of Qatar IPOs.

Month	AR	CAR	t-stat	Month	AR	CAR	t-stat
M1	0.1684	0.1684	0.1523	M19	-0.1278	2.0186	-0.4283
M2	**0.2312**	**0.3997**	**1.4121***	**M20**	**0.0858**	**2.1044**	**0.4184***
M3	**0.2673**	**0.6670**	**0.9514***	**M21**	**0.0617**	**2.1661**	**0.2258***
M4	-0.2576	0.4094	-0.7445	**M22**	**0.1998**	**2.3660**	**0.4698***
M5	-0.1900	0.2193	-0.6828	**M23**	**0.0601**	**2.4261**	**0.2303***
M6	**0.0895**	**0.3088**	**0.4751***	M24	-0.3529	2.0732	-1.3483
M7	-0.0493	0.2595	-0.1918	M25	-0.0796	1.9935	-0.4625
M8	-1.1120	-0.8525	-2.0994	**M26**	**0.5764**	**2.5700**	**1.5488***
M9	1.8959	1.0434	1.4384	M27	-0.3138	2.2561	-2.2200
M10	**0.0019**	**1.0453**	**0.0068***	**M28**	**0.0376**	**2.2938**	**0.1148***
M11	-0.1504	0.8949	-0.6221	**M29**	**0.2441**	**2.5380**	**1.0753***
M12	0.9844	1.8794	0.7142	M30	-0.2170	2.3209	-1.0536
M13	-0.7513	1.1280	-1.4361	**M31**	**0.0036**	**2.3246**	**0.0177***
M14	-0.2051	0.9229	-0.7580	M32	-0.0808	2.2438	-0.3153
M15	-0.0158	0.9070	-0.0427	M33	-0.3179	1.9258	-0.8125
M16	**0.4414**	**1.3485**	**1.1601***	**M34**	**0.1782**	**2.1041**	**0.43613***
M17	**0.2376**	**1.5861**	**0.7517***	M35	-0.0762	2.0278	-0.4486
M18	**0.5603**	**2.1465**	**1.9440***	* significant at 5%			

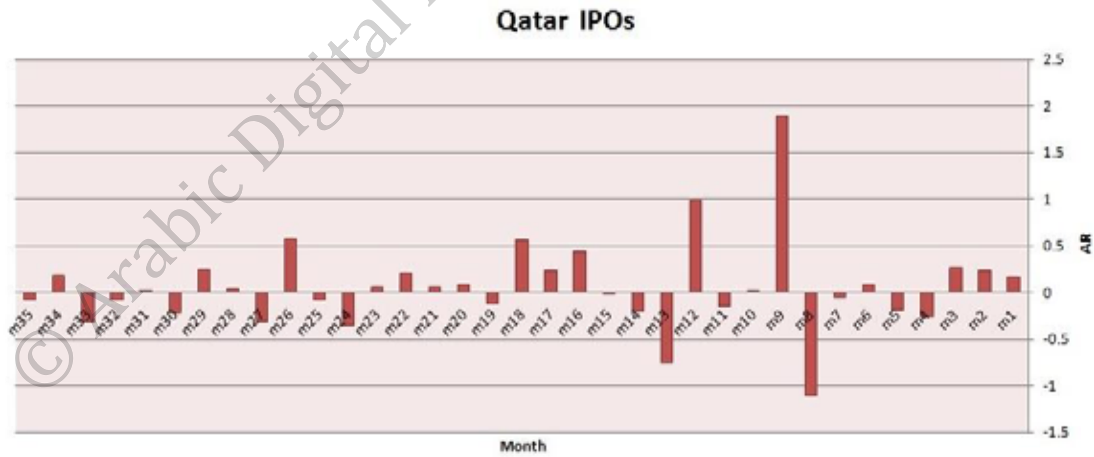
(Sources : developed by reasearcher)

Appendix (5.11) presents the descriptive statistics of the ARs after IPOs in Qatar. The mean ARs are positive after issuance in months 1, 2, 3, 6, 9, 10, 12, 16, 17, 18, 20, 21 , 22, 23, 26, 28, 29, 31 and 34. However, they show negative means in months 4, 5, 7, 11, 13, 14, 15, 19, 24, 25, 27, 30, 32, 33 and 35 after issuance.

The positive AR ranged from 1.8959 in month 9 to 0.0019 in month 10 after the issuance. The negative AR ranged from -0.01584 in month 15 to -2.09944 in month 8.

Results shows a significant AR in months 2, 3, 10, 16, 17, 18, 20, 21, 22, 23, 24, 26, 28,31 and 35. The best performance appears in month number 26, which indicate that there is a long-run overperformance and stocks are underpriced. Following these results, the sub hypothesis one which states that "There are significant abnormal returns in Qatar market after IPOs" is rejected.

Figure (5.3) Qatar Abnormal Return



(Sources : devloped by researcher)

Figure (5.3) shows the movement of the abnormal return during 35 months after IPO. It shows an increase in months 1, 2 and 3, then, a high decrease occurs in month 8. It also shows an increase after months 18 and 26. Results for Qatar may slightly differ from previous results for GCC and Saudi Markets because they indicate underperformance in the long run.

When Saudi IPOs are analysed separately from Qatari IPOs, we observe that the movement of CARs along the time horizon is fluctuating up and down. This means that investment in the Saudi market is better than the investment in the Qatari market.

Finally, all results show that there is overperformance after months 11, 23 and 35 from IPOs, These periods, which represent the end of a fiscal year after the issuance process and when companies are issuing their annual reports, represent end of year effect and investors in this period are willing to buy stocks, which leads to increase price.

Chapter Six

Conclusions & Recommendations

6.1 Introduction

This chapter presents the study as whole, and then provides a conclusion and recommendations.

6.2 Summary and Conclusion

This study aimed to investigate the long run performance of IPOs in GCC countries during the period 2005-2010, looking for any statistically significant abnormal returns after IPOs for a sample of GCC.

In order to achieve the goals, monthly return (ri), monthly abnormal return (AR), cumulative abnormal return (CAR) and t-test are calculated. Under the CAR method, results report a significant long run overperformance when using a general index as a benchmark for each country. This overperformance seems clear in the beginning period after IPOs and after months 11, 23 and 35 from IPOs, which represents a fiscal one year, two years and three years after the issuance of the IPO.

In Saudi Arabia and Qatari markets, it's found that a variation in performance on the long run, where it increases in the beginning period after IPOs, and then fluctuates between increase and decrease.

These results are similarity the Australian mining sample in How (2000) study as Australian IPOs have equally weighted CAR of 107.18%

over in event window, and differ from Mohammad and Ajlouni (2007) study about Jordanian firms, conducted during the period 1990-2006, where the results show that the AR is significantly negative in months 4, 6, 13, 17 - 19, 22-24, 30, 34 and 35 at a 5% level of significance or less.

6.3 Recommendations

1- For investors of IPOs, in the GCC Market, investment might be profitable in long run.

2- For the Saudi Market, investors can go for long run investment.

3- Qatar Market, Investors can go for short run investment.

4- Other studies can expand the event window to more months after IPOs.

5-Additional studies can be repeated by using the same methodology with new sample and new issuances.

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5) **http://www.qfma.org.qa/ , Qatar Financial Market Authority.**

6) **http://www.qfma.org.qa/ , Bahrain Financial Market**

7) **https://www.adx.ae , Abu Dhabi Securities Exchange**

8) **http://www.cbb.gov.bh/ , Central Bank of Bahrain**

Appendix

Appendix (1) Saudi IPOs

Company name	Industry	IPO year
1-Alabdulateef	Manufacturing Investment	3-Feb-2007
2-Red Sea Housing Services	Construction & Building	4-Nov-2006
3-Al-Othaim	Retailers	21-June-2008
4-Al-Mojil	Construction & Building	26-May-2008
5-SVCP	Construction & Building	8-May-2007
6-Halwani Brothers	Agricultural and Food	21-June-20
7-Aldrees	Retailers	31-March-2006
8- Saudi Paper Manufacturing	Manufacturing Investment	5-June-2006
9-Alhokair	Retailers	23-Dec-2006
10-United International Transportation .	Transport	1-Sep-2007
11-The Saudi Research and Marketing Group	Media and Publishing	15-May-2006
12-Saudi Reinsurance Co.	Insurance	24-May-2008
13-Jabal Omar Development Co.	Real Estate Development	1-Dec-2007
14-Abdullah A. M. Al Khodari Sons Co.	Construction & Building	23-Oct-2010
15- Al Jouf Cement Co.	Cement	11-Aug-2010
16-Knowledge Economic City	Real Estate Development	9-Aug-2010
17- Al Hassan Ghazi Ibrahim Shaker Co	Industrial Investment	17-May-2010
18- Al Sorayai Trading & Industrial Group	Industrial Investment	15-Feb-2010
19-Herfy Food Services Co.	Agriculture & Food Industrial	2-Feb-2010

Sources: developed by researcher

Appendix (2) Kuwait IPOs

Company name	Industry	IPO year
1-Kuwait China Investment Co	Financial Services	17-Nov-2009
2- Monsha’at co.	Financial Services	16-Nov-2007
3-Hayat Communications Co.	Technology	22-may-2007

Sources: developed by researcher.

Appendix (3) Bahrain IPOs

Company name	**Industry**	**IPO year**
1-Aluminium Bahrain Co	Industrial	15-Oct-2010
2-Seef Properties Co	Services	20-Aug-2007
3-Albaraka Banking Group	Investment	20-Sep-2006
4-Ithmaar Bank	Investment	30-Jun-2006
5-Nass Corporation	Services	20-sep-2005
6-Khaleeji Commercial Bank	Investment	17-June-2008
7-Banader Hotel Co.	Hotel & Tourism	25-Oct-2005
8-Al Salam Bank	commercial Banks	23-May-2006

Sources: developed by researcher.

Appendix (4) Abu Dhabi IPOs

Company name	Industry	IPO year
1-Arkan Building Materials Co.	Industrial	3-Jan-2007
2-Gulf Navigation Holding Co.	Transportation	21-Feb-2007
3-Drake & Scull International	Real Estate & Construction	16-Mar-2009
4-Tamweel Co.	Banks	Jul-2006
5-Emirates Telecommunication Co.	Telecommunication	Apr-2006
6-Methaq Takaful Insurance Co.	Insurance	May-2008
7-RAK Properties .	Real Estate	Nov-2005
8-Green Crescent Insurance Co.	Insurance	Mar-2009

Sources: developed by researcher.

Appendix (5) Oman IPOs

Company name	Industry	IPO year
1- Oman Qatari Telecommunications Co.	Services	Nov-2010
2- Sohar Bank	Banking & Investment	March-2007
3- Galfar Engineering & Contracting Co.	Services	Oct-2007
4- Taageer Finance	Banking & Investment	Oct-2005
5- Sohar Power	Services	Aug-2008

Sources: developed by researcher.

Appendix (6) Dubai IPOs

Company name	Industry	IPO year
1- Al Firdous Holding Co.	Services	Nov-2007
2- Air Arabia Co.	Transportation	Jul-2007
3- Deyaar Development Co.	Real Estate & Construction	Sep-2007
4- Takaful House	Insurance	Aug-2008
5-Dubai Financial Market Co.	Investment & Financial Services	Mar-2007

Sources: developed by researcher.

Appendix (7) Qatar IPOs

Company name	Industry	IPO year
1-Mazaya Qatar Real Estate Development Co	Real Estate	Oct-2010
2- Qatar & Oman Investment Co	Banks & Financial Services	Dec-2007
3- Dlala Brokerage & Investment Holding Co.	Banks & Financial Services	Sep-2005
4- Islamic Holding Group	Banks & Financial Services	Feb-2008
5- Masraf Al Rayan	Banks & Financial Services	Jun-2006
6-Al Khalij Commercial Bank (Al Khaliji)	Banks & Financial Services	Aug-2007
7-Qatari Investors Group	Industrial	Aug-2006
8-Gulf International Services Co	Industrial	Aug-2008
9-Al Meera Consumer Goods Co.	Consumer Goods & Services	Oc-2009
10-Barwa Real Estate Co.	Real Estate	Fe-2006

Sources: developed by researcher.

Appendix (8) The selected sample of IPOs in GCC,

According to number of Offerings, and Industrial Sector.

Year	**Numbers of IPOs**	**Industry**
2005	5	2 in Banks & Financial Services, 1 in Services , 1 in Hotel & Tourism , 1 in Real Estate
2006	13	3 in Banks & Financial Services, 2 in Construction & Building, 2 in Retailers, 1 in Real Estate , 1 in Manufacturing Investment, 1 in Media and .Publishing , 1 in commercial Banks , 1 in Telecommunication , 1 in industrial
2007	17	5 Investment & Financial Services, 2in Real Estate & Construction, 3 in service, 2 in technology , 2 in transpiration , 1 in Manufacturing Investment, 1 in Construction & Building, 1 in industrial
2008	10	3 in insurance, 2 in Banks & Financial Services, 1in service , 1in industrial , 1 in Retails , 1 in agriculture , 1 in Construction & Building .
2009	4	1 in Banks & Financial Services, 1 Real Estate Development, 1 Insurance, 1 in Consumer Goods.
2010	9	2 in Industrial Investment,1 in Construction & Building, 1 in cement , 2 Real Estate Development , 1 in Agriculture & Food Industrial, 1 in Industrial, 1 in Service
Total	**58**	

Sources: developed by researcher.

Appendix (9) Descriptive Statistics of GCC data

Month	m1	m2	m3	m4	m5	m6	m7	m8	m9	m10	m11	m12	m13	m14	m15	m16	m17	m18
Mean	0.014729	0.035118	0.011117	0.006742	-0.00409	0.006402	-0.00318	-0.03864	0.017094	0.013329	-0.0242	0.023118	-0.00624	-0.02215	-0.00323	0.015351	0.014687	0.007278
SD	0.196465	0.125656	0.100964	0.105788	0.095286	0.097027	0.090811	0.132607	0.207142	0.14208	0.107071	0.237262	0.113692	0.100621	0.085841	0.102957	0.126095	0.109613
SE	0.025797	0.016499	0.013257	0.013891	0.012512	0.01274	0.011924	0.017412	0.027199	0.018656	0.014059	0.031154	0.014929	0.013212	0.011271	0.013519	0.016557	0.014393
T	0.570969	2.128429	0.838537	0.485362	-0.32693	0.502488	-0.26666	-2.21936	0.628486	0.714466	-1.72157	0.742063	-0.41771	-1.67661	-0.28701	1.135555	0.88705	0.50569
TAR	0.8543	2.0368	0.6448	0.3910	-0.2372	0.3713	-0.1844	-2.2413	0.9915	0.8962	1.6140	1.3409	-0.3617	-1.2848	-0.1876	0.8904	0.8518	0.4221
CAAR	0.8543	2.8911	3.5359	3.9269	3.6897	4.0610	3.8766	1.6352	2.6267	3.5229	5.1369	6.4778	6.1161	4.8313	4.6437	5.5341	6.3859	6.8081

Month	m19	m20	m21	m22	m23	m24	m25	m26	m27	m28	m29	m30	m31	m32	m33	m34	m35
Mean	0.032899	-0.01498	0.001973	0.004682	0.013161	0.007486	-0.01755	0.003645	-0.03377	-0.0078	0.023793	-0.01845	-0.01234	-0.0139	-0.00143	0.003079	0.015911
SD	0.157774	0.157804	0.089381	0.114891	0.178982	0.107121	0.106199	0.120763	0.079101	0.094165	0.168485	0.1095	0.095683	0.09408	0.102136	0.122749	0.088541
SE	0.020717	0.020721	0.011736	0.015086	0.023502	0.014066	0.013945	0.015857	0.010386	0.012365	0.022123	0.014378	0.012564	0.012353	0.013411	0.016118	0.011626
T	1.588045	-0.72306	0.168132	0.310338	0.559995	0.532214	-1.25889	0.229867	-3.25142	-0.63071	1.075473	-1.28321	-0.98212	-1.12544	-0.10696	0.191034	1.368606
TAR	1.9081	-0.8690	0.1144	0.2715	0.7633	0.4342	-1.0182	0.2114	-1.9587	-0.4523	1.3800	-1.0701	-0.7157	-0.8064	-0.0832	0.1786	0.9229
CAAR	8.7162	7.8472	7.9617	8.2332	8.9966	9.4307	8.4126	8.6240	6.6653	6.2130	7.5930	6.5229	5.8072	5.0008	4.9176	5.0962	6.0191

Sources: developed by researcher.

Appendix (10) Descriptive Statistics of Saudi data

	m1	m2	m3	m4	m5	m6	m7	m8	m9	m10	m11	m12	m13	m14	m15	m16	m17	m18
mean	-0.00508	0.02575	0.013162	0.04133	-0.00019	-0.00926	-0.00884	-0.03908	-0.00813	0.013695	-0.00544	-0.0094	-0.00771	-0.02413	-0.01901	-0.00068	0.016759	-0.00735
SD	0.125	0.110111	0.108105	0.113923	0.119099	0.108001	0.084759	0.143753	0.121872	0.159945	0.143166	0.101595	0.076596	0.094685	0.073778	0.10162	0.106095	0.073657
Se	0.028677	0.025261	0.024801	0.026136	0.027323	0.024777	0.019445	0.032979	0.027959	0.036694	0.032844	0.023307	0.017572	0.021722	0.016926	0.023313	0.02434	0.016898
t	-0.17698	1.019353	0.530708	1.581362	-0.00702	-0.3737	-0.45482	-1.18514	-0.29086	0.37322	-0.16571	-0.40336	-0.43852	-1.11098	-1.12311	-0.02906	0.688545	-0.43512
TAR	-0.09643	0.48925	0.250079	0.785272	-0.00364	-0.17592	-0.16804	-0.74261	-0.15451	0.260203	-0.10341	-0.17862	-0.14641	-0.45852	-0.36118	-0.01287	0.318423	-0.1397
CAR	-0.09643	0.39282	0.642898	1.42817	1.424528	1.248605	1.080569	0.337955	0.183441	0.443644	0.340231	0.161608	0.015199	-0.44332	-0.80451	-0.81738	-0.49895	-0.63866

	m19	m20	m21	m22	m23	m24	m25	m26	m27	m28	m29	m30	m31	m32	m33	m34	m35
mean	0.038773	0.01519	-0.00034	0.012636	-0.00853	0.02055	-0.0305	-0.02803	-0.0323	-0.00637	0.025701	0.022868	0.014026	0.014641	-0.00479	-0.00977	0.025331
SD	0.139034	0.128863	0.077663	0.119832	0.117014	0.1397	0.064247	0.063262	0.068565	0.086976	0.063268	0.107193	0.116329	0.0889	0.090788	0.059699	0.097273
Se	0.031897	0.029563	0.017817	0.027491	0.026845	0.032049	0.014739	0.014513	0.01573	0.019954	0.014515	0.024592	0.026688	0.020395	0.020828	0.013696	0.022316
t	1.215568	0.513827	-0.01933	0.459635	-0.31766	0.641203	-2.06955	-1.93125	-2.05361	-0.31909	1.770684	0.929904	0.525572	0.717867	-0.22988	-0.7134	1.135105
TAR	0.736678	0.288618	-0.00654	0.240083	-0.16202	0.390453	-0.57957	-0.53255	-0.61376	-0.12097	0.488314	0.434493	0.266501	0.278177	-0.09097	-0.18564	0.481288
CAR	0.098022	0.38664	0.380096	0.62018	0.458157	0.84861	0.269043	-0.2635	-0.87727	-0.99824	-0.50992	-0.07543	0.19107	0.469247	0.378274	0.192632	0.67392

Sources: developed by researcher.

Appendix (11) Descriptive Statistics of Qatar data

	m1	m2	m3	m4	m5	m6	m7	m8	m9	m10	m11	m12	m13	m14	m15	m16	m17	m18
mean	0.016842	0.023129	0.026737	-0.02577	-0.019	0.008952	-0.00494	-0.1112	0.189595	0.000191	-0.01504	0.098446	-0.07514	-0.02051	-0.00158	0.044147	0.023763	0.056036
SD	0.349559	0.051793	0.088866	0.109445	0.088004	0.059578	0.081381	0.167498	0.416813	0.088508	0.076452	0.435837	0.16545	0.085568	0.117301	0.120332	0.099962	0.09115
SE	0.11054	0.016378	0.028102	0.034609	0.027829	0.01884	0.025735	0.052968	0.131808	0.027989	0.024176	0.137824	0.05232	0.027059	0.037094	0.038052	0.031611	0.028824
t	0.152363	1.412149	0.951426	-0.74451	-0.68287	0.475162	-0.19183	-2.09944	1.438415	0.006839	-0.62211	0.714288	-1.43614	-0.75807	-0.04271	1.160169	0.751736	1.944079
TAR	0.168422	0.231288	0.267369	-0.25767	-0.19004	0.089522	-0.04937	-1.11202	1.895945	0.001914	-0.1504	0.984459	-0.75139	-0.20513	-0.01584	0.441471	0.237631	0.560362
CAR	0.168422	0.39971	0.66708	0.409407	0.219369	0.308891	0.259523	-0.8525	1.043445	1.045359	0.894958	1.879416	1.128029	0.922902	0.907061	1.348532	1.586163	2.146525
	m19	m20	m21	m22	m23	m24	m25	m26	m27	m28	m29	m30	m31	m32	m33	m34	m35	
mean	-0.01279	0.00858	0.006173	0.019986	0.006011	-0.03529	-0.00796	0.057644	-0.03138	0.003768	0.024418	-0.02171	0.000367	-0.00808	-0.03179	0.017827	-0.00763	
SD	0.09441	0.064834	0.086427	0.134525	0.082507	0.08277	0.054443	0.117689	0.044702	0.103745	0.071807	0.065147	0.065488	0.081075	0.123721	0.129257	0.053764	
SE	0.029855	0.020502	0.027331	0.04254	0.026091	0.026174	0.017216	0.037216	0.014136	0.032807	0.022707	0.020601	0.020709	0.025638	0.039124	0.040875	0.017002	
t	-0.42836	0.418489	0.225866	0.469815	0.230382	-1.34836	-0.46256	1.548874	-2.22006	0.114848	1.07533	-1.05365	0.017721	-0.31532	-0.81259	0.436131	-0.44862	
TAR	-0.12789	0.0858	0.06173	0.199861	0.060109	-0.35292	-0.07964	0.576436	-0.31383	0.037678	0.244178	-0.21706	0.00367	-0.08084	-0.31792	0.178266	-0.07627	
CAR	2.018637	2.104438	2.166168	2.36603	2.426139	2.073217	1.99358	2.570016	2.256187	2.293866	2.538044	2.32098	2.324649	2.243806	1.925888	2.104154	2.027882	

Sources: developed by researcher.

الملخص

الأداء المالي لعملية الإصدارات الأولية في أسواق دول مجلس التعاون الخليجي خلال الفترة 2003-2010، رسالة ماجستير بجامعة اليرموك، 2014.

اعداد:

محمد عدنان الزرعي

اشراف:

أ.د منى المولا

الهدف الرئيسي من هذه الدراسة هو الفحص العملي في أداء سوق الأسهم على المدى الطويل، بحثا عن أي عائد غير طبيعي بعد عمليه الاصدارات العامة الأولية (الاكتتابات)، وذلك باستخدام أسعار الإغلاق الشهرية لـ 58 شركه مدرجة في اسواق دول مجلس التعاون الخليجي خلال الفترة 2003-2010.

منهجية العائد الغير طبيعي التراكمي (CAR) ومنهجية دراسة الحدث (Event Study Approach) تم استخدامهم في الدراسة لاختبار اداء اسهم السوق.

اظهرت نتائج الدراسة أن هناك عوائد غير طبيعية ذات دلالة إحصائية بعد الاكتتاب ، كذلك تدني في تسعير الاسهم في الاصدارات الاوليه مما يؤدي الى الارتفاع في اسعار هذه الاسهم بعد عمليه الاكتتاب.

الكلمات المفتاحيه : **الاصدارات العامه الاوليه ، الاداء طويل الاجل ، مجلس التعاون الخليجي ، العائد الغير طبيعي .**